2019

ANNUAL REPORT AND FINANCIAL STATEMENTS

Insuring Happiness

APA LIFE

www.apainsurance.org

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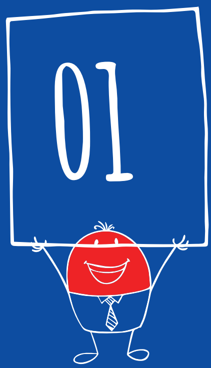

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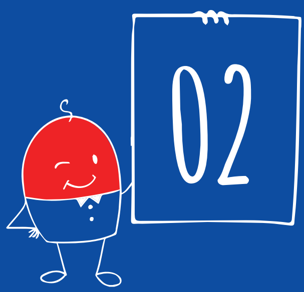

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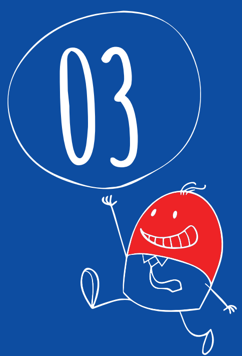

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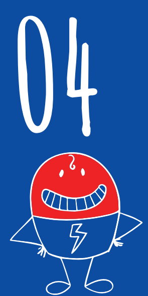


Financial Statements

COMPANY INFORMATION

DIRECTORS

R M Ashley*	- Chairman
D M Ndonye	
A K M Shah	
P J Shah	
S M Shah	
R Schnarwiler**	
P M K Shah*	
M M'Mukindia	

*British **Swiss

COMPANY SECRETARY

P H Shah
Certified Public Secretary (Kenya)
P.O. Box 30094 - 00100
Nairobi

SENIOR MANAGEMENT

Catherine Karimi	- Chief Executive Officer
Daniel Mugo	- Chief Finance Officer
Bernard Kinyanjui	- Head of Corporate Business
Vitalis Mbae	- Actuarial Officer
Jane Watiki	- Head of Operations - Corporate Business
Harriet Aleke	- Head of Operations - Retail Business
Stephen Muiga	- Business Development Manager - Alternative Channels
James Njagi	- Business Development Manager - Deposit Administration
Mark Mumo	- Business Development Manager - Corporate Business, Group Life
Benedicto Makena	- Business Development Manager - Retail Business

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way, Chiromo Road
P.O. Box 43969- 00100
Nairobi

BANKERS

NCBA Group Limited
P O Box 30437 - 00100
Nairobi

CONSULTING ACTUARIES

Giles T Waugh, FASSA, FIA
Independent Actuarial Consultant
+27 11 646 0199/ +27 83 680 7990

REGISTERED OFFICE

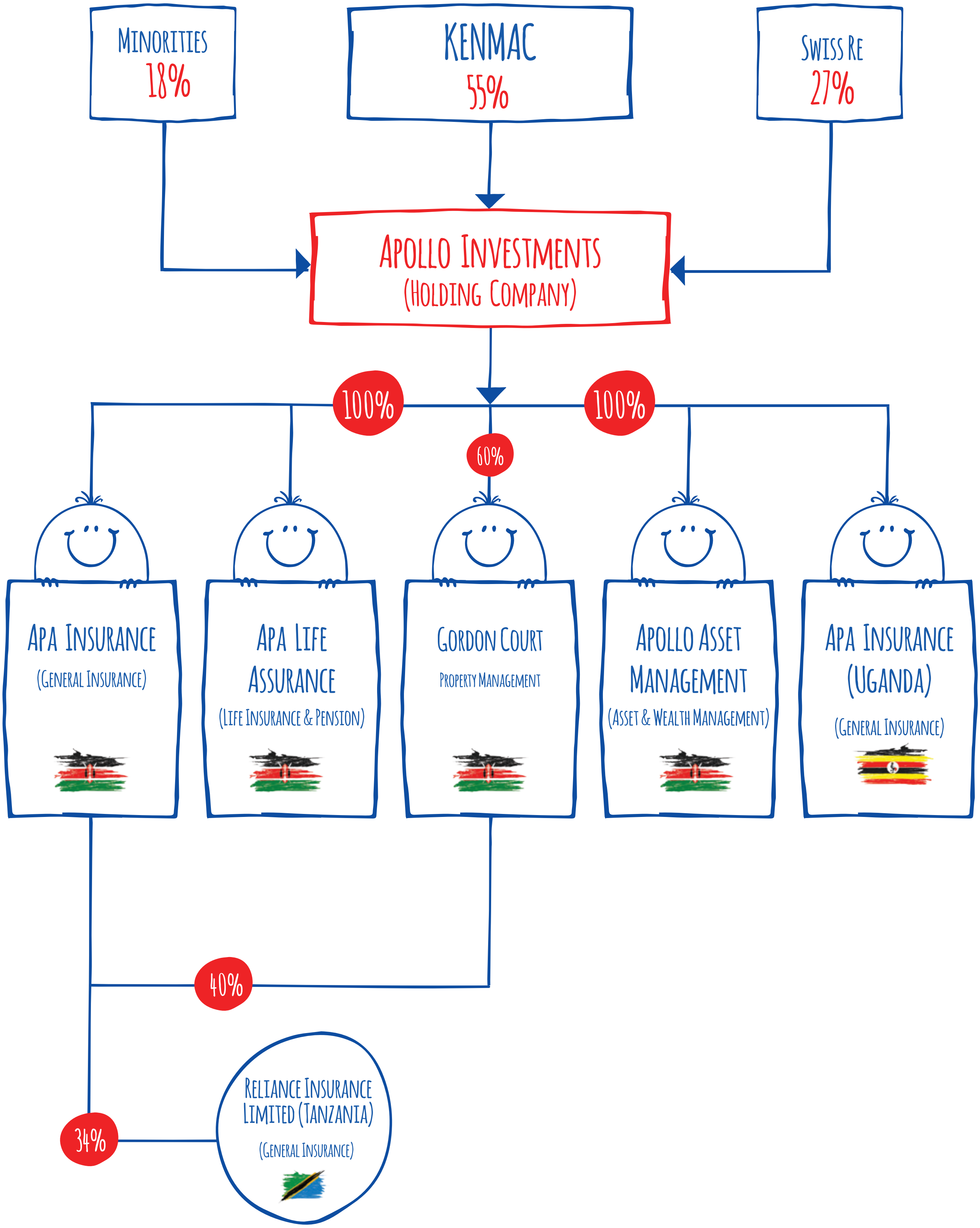
Apollo Centre,
07 Ring Road Parklands, Westlands
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1000
Nairobi

AGENCY OFFICE

Barclays Plaza,
Loita Street
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1042
Nairobi

Apollo House
Moi Avenue
P.O. Box 81821 - 80100
Tel: +254 (0) 41 227506
Mombasa

GROUP STRUCTURE



BOARD OF DIRECTORS

John Piper
Swiss Re
Board Observer

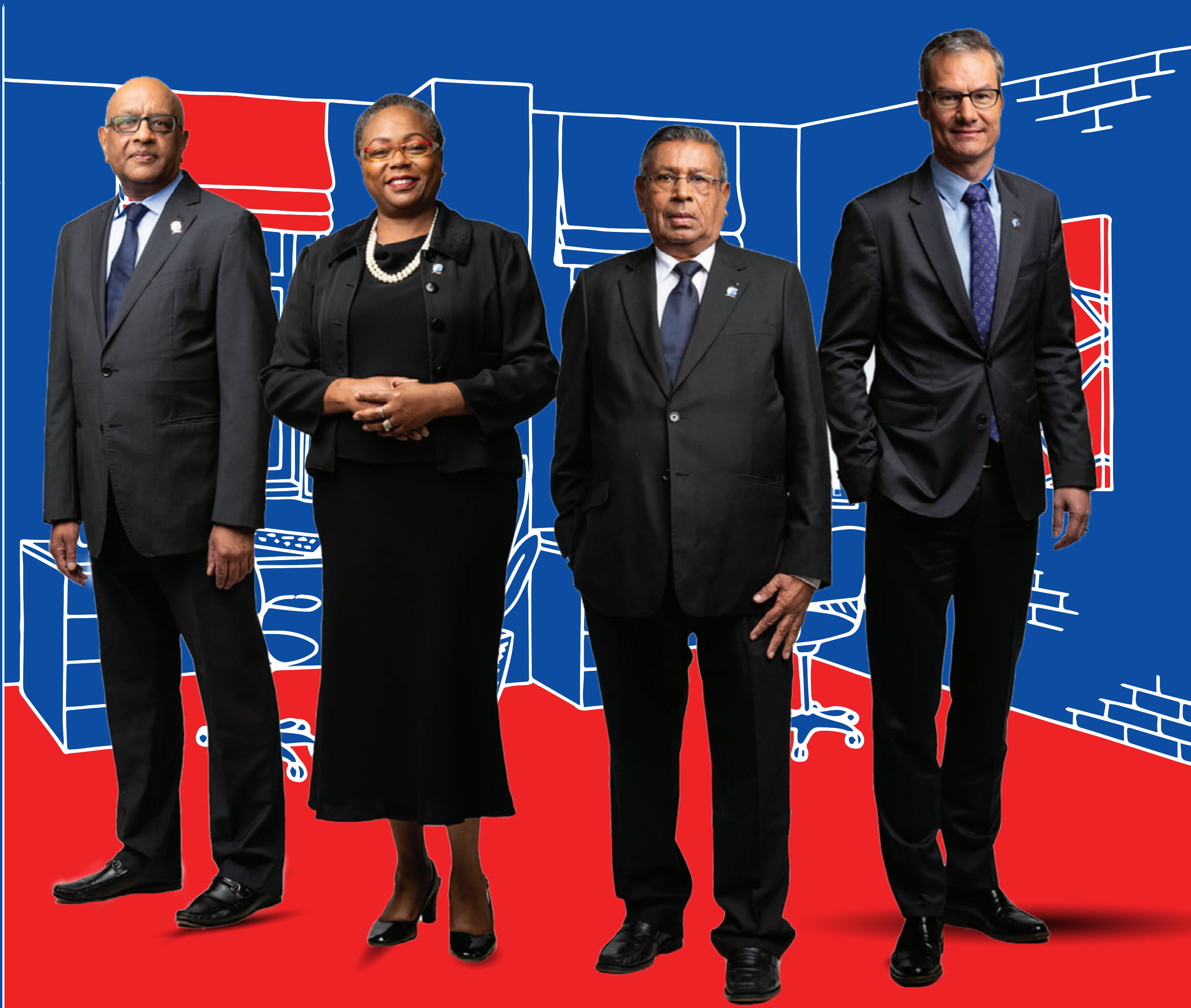
Ashok Shah
Director

Richard Ashley
Chairman

Daniel Ndonye
Director

Pratul Shah
Company Secretary

BOARD OF DIRECTORS *(CONTINUED)*



Piyush Shah
Director

Mary M'Mukindia
Director

Shashi Shah
Director

Reto Schnarwiler
Director

MANAGEMENT TEAM

Catherine Karimi
Chief Executive Officer

Daniel Mugo
Chief Finance Officer

Harriet Aleke
Head of Operations - Retail Business

Bernard Kinyanjui
Head of Corporate Business

Jane Watiki
Head of Operations - Corporate Business

James Njagi
Business Development Manager - Deposit Adminstration

Mark Mumo
Business Development Manager - Corporate Business - Group LIfe

Stephen Muiga
Business Development Manager - Alternative Channels

Benedicto Makena
Business Development Manager - Retail Business

Vitalis Mbae
Actuarial Officer

MANAGEMENT TEAM *(CONTINUED)*

Keval Shah
Group Chief
Finance Officer

Maria Simiyu
Group Head of
Human Resource

James Nyakomitta
Group Chief
Information Officer

Benjamin Otieno
Group Head of Risk

Grace Nganga
Group Head of
Corporate Communications
and Marketing

Judith Bogonko
Group Head
of Customer Service

APA, Insuring Happiness

APOLLO GROUP TIME CAPSULE

1946

Pan Africa was founded in Mombasa as 'IndoAfrica' by the Patel Community

1963

IndoAfrica changes its name to Pan Africa, moves to Nairobi and is quoted on the stock exchange

1977

Apollo Insurance is founded in Mombasa by Shashi Shah with Kenmac being the major shareholder

1987

The Insurance Act of 1984 came into effect, mandating immediate and major changes within the Insurance industry

Apollo Improves its governance structure, to meet the Act's requirements

1991-92

Apollo places more emphasis on General Insurance.

1980s

Apollo was the leading company in Life Insurance with its Brand promise as: "Be Apollosure, Insure with Apollo"

Apollo Life business was managed from Mombasa while General Insurance was managed from Nairobi

1981

Apollo establishes its first branch in Nairobi, located at Hughes building 6th floor

Apollo starts looking for support to continue growing and expanding its business

Shashi Insurance Agents start placing business with Apollo

1982

Gordon Court is purchased as a specialist property development company

1996

Ashok Shah, who had thus far been helping on Marketing and other areas is appointed as new CEO

2002

Pan Africa approaches Apollo and starts discussion to consolidate the 2 general insurance businesses

APOLLO GROUP TIME CAPSULE *(CONTINUED)*

2003

APA INSURANCE formed after the merger of the General Insurance businesses of Apollo Insurance Company and Pan Africa Insurance

2004

APA starts trading, the brand promise "A New Dimension in Insurance"

APA settles enormous amounts for all the discharge vouchers issued by Pan Africa before the merger

2006

APA holds its first Power of Alignment retreat and launches new brand promise titled "Rewriting the Rules of Insurance"

For 6 years, APA was the sole provider of HIV cover in health insurance. Others now follow suit...

Gordon Court - commences the construction of Apollo Centre which becomes the Group headquarters

2006-07

APA is a trailblazer again! APA is now the only one to insure old cars and old people up to the age of 75-80

2013

Apollo Life Assurance Ltd rebrands to APA Life Assurance Limited

2014

KES 1.97 Billion claim paid to JKIA in record time of 6 months

Ashok Shah - APA CEO, becomes the 1st recipient of the Life time Achievement award at the Think Business Insurance awards

Leapfrog sells their 27% shares to SwissRe (who has been APA's reinsurer since 1977)

2015

Apollo doubles its number of employees in just 5 years, exceeding the 400 mark

Eva Mukasa appointed as Chairlady APA Uganda Board

2017

Catherine Karimi, becomes the 1st Female CEO of APA Life Assurance

The micro and agri insurance receives a matching grant of $2.5M from MCF to support agricultural businesses

2007 ONWARDS

APA is considered as one of the biggest players in Insurance in Kenya

2009

APA Insurance (Uganda) commences operations as a specialist General Insurance provider in Uganda

2010

Pan Africa decides to sell their shares in APA. Leapfrog invests in Apollo Insurance to help Apollo purchase those shares

Leapfrog also injects money to set up Uganda and a new life & health system

Apollo Insurance transfers its Life Insurance business to Apollo Life Assurance Limited

APA innovates again and pilots Micro Insurance and Agriculture Insurance

Apollo exceeds the 200 employee mark for the first time in its existence

2018

APA actively starts looking at digitization as a key step to position itself amongst the best insurers in the world

Launched the happiness campaign: "Insuring happiness"

Vinod Bharatan wins the CEO of the Year at the Think Business Insurance award

2019

APA starts digital journey with McKinsey's support

APA wins the European microfinance award for strengthening resilience to climate change

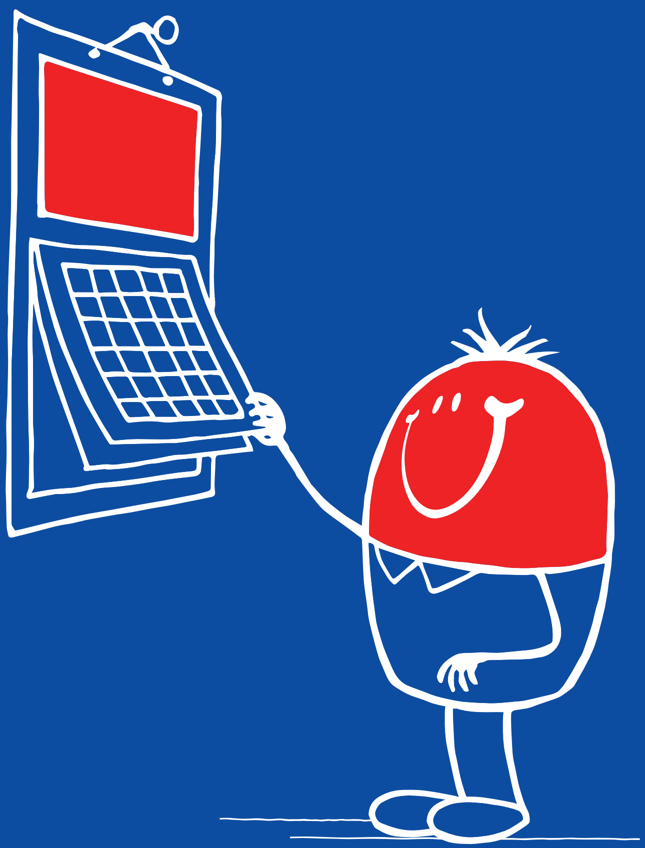
2020

APA launches the hAPPiness App

Annual Travel insurance cover is embedded in existing group life and medical policies

HAPPINESS IS

TO HAVE A SOLID PLAN FOR YOUR LOVED ONES



Life Cover is a gift that guarantees financial security for your loved ones in the event of the policyholder's death. Anyone from the age of 18 years to up to 70 years can take a Life Cover for Insuring Happiness.

Scan and
download the
APA Insurance APP

CHAIRMAN’S STATEMENT

“Dear Shareholders,

On behalf of the Board of Directors, it’s my great pleasure to present the 2019 annual report and financial statements for APA Life Assurance Limited for the year ended 31 December 2019.”

ECONOMY & BUSINESS ENVIRONMENT OVERVIEW

Whist we await final numbers from Kenya National Bureau of Statistics, it is estimated that GDP growth for 2019 decelerated to 5.5% from 6.3% achieved in 2018. During the review year, macroeconomic indicators showed mixed performances but largely pointed to reduced economic activity compared to prior year. The deceleration in growth was mainly on account of depressed growth in most of the sectors of the economy. Growth in the agricultural sector was hampered by notable drop in production of key crops albeit improvement in coffee production & export, cut flowers and milk deliveries. Within the manufacturing sector, growth was constrained by declines in manufacture of sugar and processed tea. Under the non-food subsector the growth was supported by an expansion in the assembly of motor vehicles in the third quarter of 2019. However, growth in this sub sector was curtailed by notable declines in production of cement and manufacture of galvanized iron sheets. The continuation of the interest rate cap on commercial bank lending rates (until October 2019) prevented the economy from achieving its full potential.

This wider economic stability also helped the local currency maintain its position against the dollar, with the shilling trading at 101.33 to the greenback as of 31 December 2019. Having opened 2018 at 101.81 to the dollar, the shilling managed to avoid the volatility that beset many currencies in developing countries during the past year.

The currency of East Africa’s biggest economy tumbled to a four-and-a-half-year low in mid-March 2020 to stand at 105.70 as turmoil in global financial markets spread spilled over into frontier economies.

The lock downs in Europe, which is Kenya’s biggest export market for produce like flowers in Europe and source of tourists, are expected to curb its hard currency earnings temporarily with lack of inflows, where everybody is holding back onto their dollars

STOCK MARKET PERFORMANCE

In 2019, the Nairobi Securities Exchange delivered strong performance with the Nairobi All Share Index (NASI) posting a gain of + 18.5% compared to a decline of 18.0% in 2018. The stock market experienced strong growth in the last quarter of the year following presidential assent to the repeal of interest rate caps and thus leading to market positive re-rating of banking and other proxy stocks. Notable gainers in 2019 included Equity Bank (53.5%), KCB (44.2%) and Safaricom (41.9%). Going forward we expect moderate performance in 2020 due to elevated risk of interest rate rise and most investors shifting to money market instruments.

FINANCIAL PERFORMANCE

In 2019, we recorded gross premium income of KShs.909Million for the ordinary life and group life insurance. This was against a backdrop of cut-throat competition and undercutting, a 6% drop from KShs.963Million in 2018. Indeed, we lost some of our key accounts due to insistence on proper underwriting and pricing which has been a mirage in this industry.

The total revenue including the DAP contribution remaining flat at KShs1.517Million over 2018. The deposit administration line recorded a growth of 15% in contributions from KShs.530Million in 2018 to KShs.609Million.

Our profit before income tax expense for the year stood at KSh79Million (2018: Loss of KSh22.2M). This was a major milestone on our business under volatile business environment, largely attributed to better investments experience, improved underwriting practices and strict cost controls during the year. Our deposit administration fund maintained a steady growth of 17.2% to surpass the KShs4B mark at end of the year, up from KShs3.4Billion in 2018.

CHAIRMAN'S STATEMENT *(CONTINUED)*

FINANCIAL PERFORMANCE *(CONTINUED)*

In consultation with our Statutory Actuary, the Board of Directors has approved a reversionary bonus of 4% on the "with profit individual life policies" and net interest of 10.50%, (2018: 10.25%) on deposit administration schemes and individual pension plans funds. This was primary occasioned by better performance of investment income during the year. The board continues to support management new initiatives geared towards improving business efficiency and improving returns to all stakeholders and the business is on the right track and direction.

Our total asset base grew by 11% to stand at KSh5.9Billion from KSh5.3Billion in 2018. The capital adequacy ratio stood at a 151%(2018: 132%) demonstrating steady growth and geared towards the statutory requirement of 200% that is to be implemented commencing 30th June 2020. Our thrust is modelled on growth with profitability as that is the only sustainable business model and striving achieve customer obsession in all our activities. This will ultimately become a competitive advantage in our much saturated market place barring any consolidations that may result from the June 2020 Risk Based Capital implementation. We strongly believe that with peers of the same convictions, we can manage to bring back the old hitherto underwriting discipline required to leapfrog the industry to the next level.

INSURANCE SECTOR REGULATORY CHANGES

As customary, there were several changes introduced in 2019 with the aim of stirring growth and also ensuring stability in the sector. Indeed, the policy changes are noble but sometimes are fraught with inconsistencies by the players when it comes to implementation and supervision. The Insurance Act was amended to introduce index based insurance, micro insurance and social insurance schemes. Though the specific regulations on this area have not been fully developed, there exist a huge potential to increase the insurance penetration levels via these channels which remains largely uncharted.

Richard M Ashley
Chairman

CHAIRMAN'S STATEMENT *(CONTINUED)*

INSURANCE SECTOR REGULATORY CHANGES *(CONTINUED)*

Group-wide supervision has now been introduced empowering the Insurance Regulatory Authority to direct a member of the insurance group to provide any information necessary for effective supervision. This is premised on the need to promote the best interest of the insurance policyholder at the behest of the various intra group strategies and operations.

The sector also witnessed the introduction of digital/ virtual motor certificates albeit in a phased manner. This is an important step for driving innovation on the motor insurance space and also help to curb frauds perpetuated with fake motor certificates.

DIGITAL TRANSFORMATION – ''APOLLO NIRVANA''

The role technology plays in meeting customers' changing wants and needs across generations is critical. The core of being successful in innovation is being successful in technology. After an extensive digital audit across the group, Apollo Nirvana initiative successfully built the Digital Factory, one of its class in the sector. We have clearly mapped the key initial areas of focus for digital transformation. While it's in its early stages of developments with coming up of innovative life products underway, the ultimate goal is to make the group a leader in the digital space "Insuring Happiness with seamless protection for all customers, at their fingertips" a vision that continues to inspire us and put fire in our bellies daily. We continue to create excitement for the board, management, staff, intermediaries and all stakeholders as they support this ambitious business transformation journey.

FUTURE OUTLOOK

The World Health Organization has made it official: Coronavirus is the first "global health emergency" of our new era of major power competition. Thus, its ripples won't stop at global markets but will also reach geopolitics. It's already clear that the Coronavirus impact, though too early to fully measure, will be significant on Chinese and global supply chains, markets and economies; on the legitimacy and the trust enjoyed by the Chinese Communist Party with its own people; and on Asian regional politics and US-Chinese relations, where trust already was in such short supply.

Just as markets were ready to look past trade tensions and rally around a recovering macro environment, the Coronavirus outbreak has injected a degree of uncertainty not seen since the height of trade wars. Forecasts for growth, not just in China but globally, are coming down as the economic toll of the virus and quarantine are becoming clearer. If history is a guide, epidemics tend to have a short-term impact; but over the medium-to-longer-term, markets and economies are driven by the economic and business cycle. Nevertheless, we think the economic toll for China and the global economy will be significant in the first quarter and depending how long the virus remains uncontained, into the second quarter as well. While the situation remains fluid, investors will continue to take a long-term approach and focus on sectors facing secular growth prospects.

The first case of Coronavirus infection within Kenya's borders was reported on the 13th of March 2020. Despite this, the country had already begun experiencing the adverse economic effects of the pandemic. The tourism sector which contributed approximately 1.3% to Kenya's GDP in Q3'2019, is facing hard times due to lockdowns in major economies where tourists originate from such as Italy.

KENYAN ECONOMY

The lockdowns have seen a reduction in revenues to the aviation industry which also greatly contributes to the tourism sector, the hospitality industry specifically the meetings, incentives, conferences and exhibitions is also expected to take a hit because of travel cancellation as well as the 30-day ban on public gatherings. Agricultural sector, freezing of orders on fruits and vegetables to China, coupled with reduced orders from consumers in Europe & Middle East. A hike in the prices of imported inputs used for food processing and other processes, and reduction in airfreight volume, cancelled shipping vessels and drop in export volumes.

The manufacturing sector heavily relies on intermediate goods from China. With the supply chain disruption, the sector is likely to be adversely affected. The health sector has had to increase its spending and direct funding towards public sensitization and training of medical personnel. The government will have to increase its fiscal spending to ensure hospitals are well equipped to deal with the pandemic. The fiscal deficit is therefore likely to increase. Imports from China account for 21.0% of total imports.

CHAIRMAN'S STATEMENT *(CONTINUED)*

KENYAN ECONOMY *(CONTINUED)*

The supply chain disruption and uncertainty may also affect this sector due to delays in importation, reducing customer confidence.

Professional Services Sector, the industry has recorded delays in payment from clients in China, which has in turn caused a delay in project implementation having a negative impact on revenue. The effects of this are also expected to negatively affect the financial sector in this period, banks were expecting to start recovering from the effects of the interest rate capping. We expect to see increased caution on lending especially to businesses that rely on imports hence inhibiting private credit sector growth

Based on the impact to other economies, we believe that coronavirus may have a 10.0% to 25.0% impact on GDP growth for the year 2020. The 10.0% impact is an optimistic case in the event the outbreak is contained, and a 25.0% impact in the event it is not contained

APPRECIATION

On behalf of the Board, I wish to express our deep gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year. I recognise and appreciate the management and staff of the company for the loyalty, dedication and hard work that has made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

RICHARD M ASHLEY

Chairman

17 March 2020

CEO'S STATEMENT

"Dear Shareholders,

I am delighted to present the CEO's statement for APA Life Assurance Ltd for the year ended 31 December 2019."

INSURANCE INDUSTRY

Amidst numerous challenges the insurance industry managed to register growth in 2019 with a growth of 11.9% under long term insurance and 1.6% under general insurance. Long term Insurance business reported a premium of Kshs.97.68b up from Kshs.87.28b in 2018. The growth was also higher than what was experienced in 2018 of 5.3%. Pension and Life Assurances remained the biggest contributors to the long term gross premium income accounting for 38.4% and 28.9% respectively.

The industry is facing a number of emerging issues which present both opportunities and threats. There are emerging insurance coverage opportunities due to micro-insurance, oil and gas, takaful, large government infrastructural projects and universal health. Increased innovation and technological improvement presents an opportunity for the industry to improve service delivery, efficiency and increase scale. Companies are embracing new technologies that promise to dramatically improve economics, internal operations, reduce risk, attract digital native consumers and enhance the customer experience. These advancements hold tremendous potential for greater efficiency and growth across the industry. Emerging threats relating to cyber-security can lead to disruption of services and loss of data. There is increased uptake in terrorism and political risk insurance covers. Discussions are also taking place on regional trading blocs and opening of local markets which presents opportunities for the industry. Government and Regulatory involvement continue to be pivotal if challenges facing the insurance industry in Kenya are to be curbed and good returns realized.

Insurance Regulatory Authority continues to employ effort in ensuring the solvency of the insurance industry is protected while on the other hand, consumers are kept away from unfair treatment. The Authority seeks to play a pivotal role in the realization of the big four agenda and is focusing on initiatives that facilitate ease of doing business and increased access to insurance services. It has also identified MSME sector as key growth area as it provides vital linkages between informal and formal sectors with multiplier effects in driving the socio-economic agenda and overall development outcomes.

THE ECONOMY

Incoming data for the final quarter of 2019 is mixed, after the economy expanded at the slowest pace in two years in the third quarter amid easing activity in the all-important agricultural sector. Merchandise export growth rebounded strongly in Q4, while credit growth to the private sector gained traction in October–November, which should have supported fixed investment and private consumption. On the other hand, the PMI deteriorated somewhat in Q4 from the previous quarter as cash flow problems weighed on private sector activity and heavy rainfalls delayed firms' delivery times. Meanwhile, recent developments bode poorly for the outset of 2020. In January, the PMI fell to a nine-month low in January, while the worst locust plague in 70 years threatens agricultural production and food security.

COMPANY'S PERFORMANCE

Against the back-drop of continued economic challenges
Against the back-drop of continued economic challenges
and flat growth of our business in 2019, I am pleased to see our key indicators performing well. 2019 was a very busy year that focused on expansion of our ordinary life business and strengthening our investments to deliver high and sustainable returns to all stakeholders. We focused on improving investments and underwriting processes of the group life business for better profitability. We saw some of these efforts bearing fruits with our pension returns remaining above market average and group life business turning around to profitability.

Our ordinary life business continues to have evolving challenges registering a 20% growth which was lower than expected. We continue to focus on improved sales retention, innovation and pursue new markets in this line of business.

CEO'S STATEMENT *(CONTINUED)*

COMPANY'S PERFORMANCE *(CONTINUED)*

We experienced a drop in group life gross written premiums against the backdrop of unhealthy competition as a result of our deliberate strategy to focus on profitability. We had gains in the microinsurance and credit life space with revenue growth experienced in the year. Our Pension lines performed better with a growth of 15% with continued two-digit rate of interest return declaration to our deposit administration policyholders. Overall, we registered a milestone improvement on our profitability from a loss position due to continuous effort to strict underwriting practices and cost controls. In line with our strategy of diversified investment that give stable streams of income we continue to give better investment results. We shall continue to strive towards the excellence of profitability to ensure our stakeholders benefit from these efforts. While these numbers are an important measure of our achievement we believe success goes beyond them. Customer value and experience are indisputably amongst our key success metrics.

We aim to turn customer experience into a competitive differentiator. Riding on our robust IT system, we are increasing our focus on customer engagement; improving customer experience at every interaction and exploring mechanisms to settle our claims faster and more efficiently. Developing and nurturing our people is also a core element of our success. We strive to enhance employee experience and engagement as well as our corporate culture. We are continuously monitoring our employee engagement score to further support this element of success and are actively encouraging our employees to embrace a learning mindset and acquire new knowledge and skills.

We continue to actively drive innovation to accelerate growth, improve services and product that we offer to our customers as well as improve productivity and quality of our business.

To enhance our customer experience and tap into emerging markets and opportunities APA has embraced technological and digital transformation. We are monitoring and keeping tab on our transformational digital journey under the hashtag 'Apollo Nirvana' our new digital strategy with more apps being developed to ease the process and bring better customer experience. We aim to be the market digital leader in the next three years. The overarching vision for Nirvana is "Insuring happiness with seamless protection for all customers, at their fingertips. The strategy is in the right track and management together with support of the board are excited about the progress.

Catherine Karimi
Chief Executive Officer

CEO'S STATEMENT *(CONTINUED)*

CORPORATE SOCIAL RESPONSIBILITY

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by existing policy and we continue to commit to a substantial budgetary allocation each year to CSR initiatives through the APA Apollo Foundation. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

FUTURE OUTLOOK

Although Kenya's economy is projected to grow at 6.1 per cent this year, analysts are already painting a picture of grim prospects with an estimated low growth of 4.3 per cent. Increased layoffs due to a depressed private sector, profit warnings by listed firms, high rates of unemployment and now the economic impact as a result of covid-19 pandemic, all dampen the county's economic prospects. While the manufacturing sector contributes only 10 per cent of the GDP, we hope that the government will create policies that attract FDIs and providing incentives to local investors. The challenge, however, will be that there will not be enough funding to fully implement the roll-out phase. Funding will be concentrated in pushing the Big 4 Agenda. Interest expense on public debt is expected to cross the KSh400 billion mark this financial year which may be unsustainable.

The global reports indicate global economic slowdown resulting from the coronavirus outbreak, 'Covid 19' will be more severe than previously estimated with unfortunately over the last few week of March 2020, we have seen a shift to a more adverse scenario for the global economy. Growth in 2020 would 'dip below' the estimated global growth of 2.9% seen in 2019 which will be a 0.5 percentage point drop from the IMF's prior forecast of 3.3% growth in 2020. Initial reports had previously indicated the virus outbreak would shave a small 0.1 percentage point from global growth.

FUTURE OUTLOOK *(CONTINUED)*

This forecast envisioned a "V-shaped" recovery and was based on two assumptions that are no longer valid, that the crisis would be limited to China and would be fully contained. How far global economic growth falls and how long the disruption lasts depends on the "timeliness and effectiveness" of the response to the health crisis from global governments. The IMF's governing body held a conference call early in March 2020 and there was "a clear commitment to action in coordinated manner.

APPRECIATION

The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation my colleagues in the management and the Board directors for their diligence, guidance and support that has ensured that we achieve superior and excellent results during the year.

CATHERINE KARIMI

Chief Executive Officer

17 March 2020

HAPPINESS IS

A PLACE THEY CAN CALL HOME FOREVER

Mortgage Protection Cover protects your family from the risk of losing their own home in the case of your untimely death. Because, a little amount today can go a long way in Insuring Happiness.

CORPORATE GOVERNANCE STATEMENT

NTRODUCTION

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in determining how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which an individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The board of APA Life Assurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognizes the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis. The role of the board is to ensure compliance by focusing on and providing the Company's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to safeguard the Company's assets and also ensure the reliability of financial information. A snior management team, comprising directors and senior managers meet regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within APA Life Assurance Limited:

1. BOARD OF DIRECTORS

The board of directors consists of seven non-executive directors of whom three directors are independent. All of the directors have been appointed in accordance with the provisions of the Insurance Act and the Corporate Governance Guidelines issued by the Insurance Regulatory Authority. The Chairman of the board is an independent non-executive director.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the company secretary who also sits in every committee and board meetings and are entitled to obtain independent professional advice on Company affairs at the Company's expense.

2. COMMITTEES OF THE BOARD

The Board has constituted various Board Committees. The board and committees draws on the expertise of consultants, experts and service providers as may be required from time to time.

Each Board Committee has a Charter which contains provisions relating to their powers, membership and duties.

The Board Committees are as follows:

- Investment Committee
- Audit & Risk Committee
- Information Communication Technology Committee and;
- Remuneration Committee

CORPORATE GOVERNANCE STATEMENT *(CONTINUED)*

3. INTERNAL CONTROL

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through operational meetings.

4. RELATED PARTY TRANSACTIONS

The related party transactions with the Company during the year ended 31 December 2019 are detailed under note 33 of the annual report and financial statements. The remuneration for directors consists of fees and sitting allowances for their services in connection with the committee and board meetings.

5. SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

The board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long term positive impact to the society and the environment. These include provision of clean drinking water and sponsorship of children education. The Company encourages staff to participate and actively support their various causes.

6. GOING CONCERN

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

RICHARD M. ASHLEY

Chairman

17 March 2020

ASHOK SHAH

Director

17 March 2020

The Sustainable Development Objectives

cover different aspects of social development, environmental protection and economic growth,

and these are the ones APA is focusing on:

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS

APA Insurance WINS the 10th European Microfinance Award

in recognition of its response to

"Strengthening Resilience to Climate Change"

At a ceremony held at the European Investment Bank in Luxembourg, Paulette Lenert, Luxembourg Minister for Cooperation and Humanitarian Affairs, (left) and Dr Hoyer, President of the European Investment Bank (right) present the 10th European Microfinance Award to Ashok Shah, Apollo Group CEO (centre)

CORPORATE SOCIAL RESPONSIBILITY

Ashok Shah - Apollo Group CEO during construction of a sand dam to support households.

"As an insurance company, we provide essential services to the community"

We play a role in connecting people with each other, with other communities and key community services. The operation of our services touches on all members of the community with the potential to positively impact on their quality of life. We also operate from a significant number of properties and have a responsibility to those living and working nearby as well as being a significant employer; directly employing 370 staff.

Our relationships with the local communities we serve are therefore very important to us and are an essential part of the growth of our business. When developing our products and services, we have a role to play in improving services for the community as a whole and not just our individual customers.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The Group's corporate social responsibility programs focus on four key pillars:

- Sustainable clean water supply to communities
- Empowering the youth
- Education and health activities
- Environment conservation.

APA APOLLO FOUNDATION

APA Apollo Foundation, previously known as 'Amini Poa Maji Maisha,' is the umbrella trust that is funded by APA Apollo Group and contributes towards the construction of sand dams. The trust has been in existence since 2006 and has constructed 22 sand dams in arid and semi-arid areas of Kenya (Machakos, Makueni and Kajiado)

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

CORPORATE SOCIAL RESPONSIBILITY *(CONTINUED)*

In 2019, the communities partnered with APA staff members and the Utooni Development Organization; a non-government organisation that specializes in the construction of sand dams and built the two dams that will support these households in the long term.

These dams are located in Imarat, Kajiado and Ikalaasa, Machakos respectively. The Ikalaasa project was a special one as the Khimasia Family partnered with the foundation to fund and build the dam in celebration of their 100 year anniversary in Kenya.

Some of the key objectives that the projects have met include:

- Enhancing water and food security for the communities
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting for long distance to fetch water for women and the children
- Ensuring that the community at large is able to participate in other income-generating activities as long hours spent in fetching water have been reduced

YOUTH INITIATIVE PROGRAMMES APA / APOLLO BURSARY FUND

RYSA football team at a recent football match

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda. The bursary fund currently in its 14th year and has 14 students in the bursary program.

Cheleta School's overall performance has greatly improved since the bursary program was introduced with the average score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for secondary education tuition and necessary personal effects.

RECREATION THROUGH SPORTS

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. Overall the team is in sixth place in a league of 13 teams. In addition, APA organizes tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

ENVIRONMENT CONSERVATION

APA team at the annual 'Run for Mau' marathon

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. In partnership with Egerton University, we have created the Ngongogeri Park and every year we plant 1500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual Run for Mau marathon in which we have participated for 6 consecutive years.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of ten trees is allocated for planting and maintenance to each household that benefits from the sand dam.

We have partnered with "Friends of Karura" and "Greenline Project" to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachment.

Environment conservation has also been embraced at the departmental level by the APA staff through the annual departmental CSR activities.

DIRECTORS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors submit their report together with the audited financial statements for the year ended 31 December 2019 which disclose the state of affairs of APA Life Assurance Limited (the "Company").

BUSINESS REVIEW

The principal activity of the Company is the transaction and administration of long term assurance business.

RESULTS

	2019 Shs'000	2018 Shs'000
Profit /(loss) before income tax	78,989	(22,198)
Income tax (expense) /credit	(10,124)	(8,398)
Profit /(loss) for the year	68,865	(30,596)
Other comprehensive loss	(447)	(1,413)
Total comprehensive (loss) /income	**68,418**	**(32,009)**

DIVIDEND

The net profit for the year amounting to Shs 68,418,000 (2018: Net loss Shs 32,009,000) has been added to statutory reserves and retained earnings. The directors do not recommend payment of dividends (2018: Nil).DIRECTORS

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 6 and 7.

DISCLOSURE TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

P.H SHAH
Company Secretary

17 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2019

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then apply them consistently; and

iii. Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 17 March 2020 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

REPORT OF THE CONSULTING ACTUARY TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2019

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2019.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities of the Company were adequate as at 31 December 2019.

GTWaugh

GILES T WAUGH, FASSA, FIA

Independent Actuarial Consultant

17 March 2020

pwc

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2019

Report on audit of the financial statements

Opinion

We have audited the accompanying financial statements of APA Life Assurance Limited (the "Company"), set out on pages 38 to 87 which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and of fair view of the financial position of APA Life Assurance Limited at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities Insurance contract liabilities as disclosed in Notes 25 to the financial statements are of significant magnitude (Shs 1,007 million) to the overall financial statements. There are several methods which can be adopted in the determination of these reserves which are underpinned by a series of assumptions, and which are also subject to the requirements of the Insurance Act in Kenya. Changes in these assumptions can lead to significant changes in actuarial liabilities. The methodology used can also have a material impact on the valuation of the liabilities. The valuation of insurance contract liabilities was considered a key audit matter due to magnitude of the balance and the estimation uncertainty involved in determining the liabilities	We engaged our actuarial specialists to assess the reasonableness of the actuarial assumptions, including the consideration and challenge of management's rationale for the judgments applied. Our audit work included: • evaluating the reasonableness of the methodology and assumptions used by comparing them against regulatory requirements, recognised actuarial practices and industry standards; and • obtaining audit evidence in respect of the key data inputs into the estimation process.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

pwc

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on page 32 is consistent with the financial statements.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

17 March 2020

CPA Bernice Kimacia – Practising Certificate No 1457.

Signing Partner responsible for the Independent Audit.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Long term business Shs'000	Shareholders' funds Shs'000	2019 Total Shs'000	Long term business Shs'000	Shareholders' funds Shs'000	2018 Total Shs'000
Gross earned premium	3	908,570	-	908,570	962,812	-	962,812
Reinsurance premium ceded		(418,067)	-	(418,067)	(495,813)	-	(495,813)
Net earned premium		**490,503**	**-**	**490,503**	**466,999**	**-**	**466,999**
Investment income	4	564,172	70,932	635,104	427,681	52,564	480,245
Commissions earned		95,847	-	95,847	106,069	-	106,069
Total income		**1,150,522**	**70,932**	**1,221,454**	**1,000,749**	**52,564**	**1,053,313**
OUTGO							
Claims and policyholders' benefits	5	(706,958)	-	(706,958)	(626,056)	-	(626,056)
Operating and other expenses	6	(232,309)	(9,846)	(242,155)	(262,457)	(11,511)	(273,968)
Commissions payable		(185,827)	-	(185,827)	(175,487)	-	(175,487)
Total claims and expenses		**(1,125,094)**	**(9,846)**	**(1,134,940)**	**(1,064,000)**	**(11,511)**	**(1,075,511)**
Operating profit/(loss) before finance cost & income tax expense		**25,428**	**61,086**	**86,514**	**(63,251)**	**41,053**	**(22,198)**
Finance costs	8	(7,525)	-	(7,525)	-	-	-
Profit /(loss) before income tax expense		**17,903**	**61,086**	**78,989**	**(63,251)**	**41,053**	**(22,198)**
Income tax expense	9(a)	(10,124)		(10,124)	(8,398)		(8,398)
Profit /(loss) after tax for the year		**7,779**	**61,086**	**68,865**	**(71,649)**	**41,053**	**(30,596)**
Other comprehensive income; net of tax							
Items that may not be reclassified subsequently to profit or loss:							
-fair value loss on unquoted equities	15	(447)	-	(447)	(1,413)		(1,413)
Total other comprehensive income/ (loss) for the year		**7,332**	**61,086**	**68,418**	**(73,062)**	**41,053**	**(32,009)**
Appropriated as follows:							
-To retained earnings		-	61,086	61,086	-	41,053	41,053
-To longterm business reserves		7,332	-	7,332	(73,062)	-	(73,062)
Total comprehensive income /(loss)		**7,332**	**61,086**	**68,418**	**(73,062)**	**41,053**	**(32,009)**

The notes on pages 59 to 87 form on intergral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 Shs'000	2018 Shs'000
Assets			
Motor vehicle and equipment	10	13,276	16,908
Intangible asset	11	-	5,183
Right-of-use assets	12	54,723	-
Investment properties	13	155,000	155,000
Quoted equity investments - FVTPL	14	335,699	222,700
Unquoted equity investments	15	7,110	7,557
Life policy loans		2,691	3,067
Other loans receivables		14,481	8,245
Investment in unit Trusts	16	5,717	11,257
Reinsurers' share of insurance liabilities	17	52,688	103,882
Receivables arising from direct insurance arrangements		83,500	109,823
Current income tax	9(b)	17,104	14,794
Other receivables	18	64,488	60,923
Government securities - at amortized cost	19(a)	2,237,690	2,543,054
Government securities - FVTPL	19(b)	1,759,529	770,804
Commercial paper and corporate bonds	20	130,079	184,855
Deposits with financial institutions	21	986,438	1,031,841
Cash and bank balances		29,655	65,151
Total assets		**5,949,868**	**5,315,044**
Equity and Reserves			
Share capital	22	700,000	700,000
Retained earnings	23	(165,962)	(194,646)
Total shareholders' funds		534,038	505,354
Longterm business reserve	24	82,879	43,145
Total shareholders' funds and longterm business reserves		616,917	548,499
Liabilities			
Insurance contract liabilities	25	1,007,593	1,039,706
Payables under deposit administration contracts	27	4,099,594	3,497,314
Payables arising from reinsurance arrangements		24,534	86,482
Other payables	28	112,974	124,618
Deferred income tax	29	28,549	18,425
Lease liabilities	32	59,707	-
Total liabilities		**5,332,951**	**4,766,545**
Total equity and liabilities		**5,949,868**	**5,315,044**

The financial statements on pages 38 to 87 were approved and authorised for issue by the board of directors on 17 March 2020 and were signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

The notes on pages 59 to 87 form on intergral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital Shs'000	Retained earnings Shs'000	Shareholder funds Shs'000	Share-holders' funds Shs'000	Longterm business reserve Shs'000	Total Share-holders' funds Shs'000
Balance as at 1 January 2018	**550,000**	**(127,894)**	**-**	**422,106**	**8,402**	**430,508**
Total comprehensive income for the year	-	41,053	-	41,053	(73,062)	(32,009)
Transaction with owners:	-	-	(71,819)	(71,819)	71,819	-
Issue of shares	150,000	-	-	150,000	-	150,000
Transfer from retained earnings to long term business		(107,805)		(107,805)	107,805	
Balance as at 31 December 2018	**700,000**	**(194,646)**	**-**	**505,354**	**43,145**	**548,499**
Balance as at 1 January 2019	**700,000**	**(194,646)**		**505,354**	**43,145**	**548,499**
Total comprehensive income for the year	-	61,086	-	61,086	7,332	68,418
Transfer from retained earnings to long term business	-	(32,402)	-	(32,402)	32,402	-
Balance as at 31 December 2019	**700,000**	**(165,962)**	**-**	**534,038**	**82,879**	**616,917**

The notes on pages 59 to 87 form on intergral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from of operations	30 (a)	68,328	32,046
Interest paid on lease liabilities	32	7,525	-
Interest received		524,618	465,887
Income tax paid	9 (b)	(2,310)	(1,104)
Net cash inflow from operating activities		**598,144**	**496,829**
Cash flows from investing activities			
Purchase of equipment	10	(1,447)	(8,258)
Proceeds from sale of motor vehicle		1,000	-
Proceeds from disposal of quoted equities		50,751	52,641
Proceeds from disposal of investment property	13	-	128,000
Purchase of quoted equities	14	(109,960)	(117,995)
Net investment in unit link trusts		(5,540)	(4,471)
Net loans advanced		(6,236)	(8,245)
Net policy loans recovered		377	(827)
Net investment in corporate bonds		54,776	260
Net placement in deposit with financial institutions		252,175	(638,543)
Net investment in government securities		(649,737)	(22,194)
Net cash outflow from investing activities		**(413,842)**	**(619,632)**
Cash flows from financing activities			
Issue of new shares	22	-	150,000
Payments of principal portion of the lease liability	32	(13,486)	-
Net cash (out)/ inflow from financing activities		**(13,486)**	**150,000**
Increase in cash and cash equivalents		**170,817**	**27,197**
Movement in cash and cash equivalents :			
At start of year		472,016	444,819
Increase in cash and cash equivalents during the year		170,817	27,197
At end of year	**30 (b)**	**642,833**	**472,016**

The notes on pages 59 to 87 form on intergral part of these financial statements.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)

Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the company financial statements are disclosed in note 1(t).

(b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

IFRS 16 – LEASES

From 1st January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the Company now recognizes lease liabilities relating to leases under which the Company is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1st January 2019 and leases of low value items). Such liabilities have been measured at 1st January 2019 at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate as at 1st January 2019. Corresponding right-of-use assets have been recognised, measured as if the Company's new accounting policy) had been applied since the commencement of each lease but discounted using the Company's incremental borrowing rate as at 1st January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lesse accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of -use asset and lease liability at commencement for all leases, except for short term leases and leases of low value assets. in contrast to lease accounting, the requirement for the lessor accounting have remained largely unchanged.

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The liability is calculated as the present value of the outstanding rentals discounted using the incremental borrowing rate at the date of transition (1 January 2019). The asset is then set equal to the liability. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately under Note 12:

The impact of the adoption of IFRS 16 on the Company financial statements at 1 January 2019 is shown below:

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Changes in accounting policy and disclosures *(continued)*

(i) New and amended standards adopted by the Company *(continued)*

At 1st January 2019	
	Shs'000
Assets	
Right-of-use assets	65,668
Liabilities	
Lease liabilities	65,668

The net impact on retained earnings as at 1st January 2019 was nil.

	Shs'000
Impact on the comprehensive income	
Charge for depreciation for right-of-use assets	(10,945)
Charge for interest on lease liabilities	(7,525)
Decrease in rental expense	13,486
Decrease in profits for the year	(4,984)

(ii) New standards and interpretations not yet adopted

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) - The amendment, applicable to annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.
- Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.
- IFRS 17 Insurance Contracts (issued in May 2017) The new standard, effective for annual periods beginning on or after 1st January 2021, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, with the exception of IFRS 16 and IFRS 17, they do not expect that there will be a significant impact on the Company's financial statements. There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Revenue recognition

(i) Revenue

For long term insurance business, premiums are recognised as revenue when they become payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective. Premiums are shown before deduction of commission. Long term business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person

(ii) Other income

Commissions receivable are recognised as income in the period in which they are earned.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income from operating leases is recognised on a straight line basis over the term of the lease.

(d) Claims incurred

Claims and policyholders' benefits payable comprise claims paid in the year and changes in the provision for insurance contract liabilities. Claims are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claims become due for payment. Death claims are accounted for on notification while surrenders are accounted for on payment.

(e) Deposit administration contracts

The Company administers the funds of a number of retirement benefit schemes. The Company's liabilities in relation to these schemes have been treated as payables in the statement of financial position. The liabilities with respect to the deposit administration contracts are determined by the Consulting Actuary on an annual basis.

(f) Insurance contract liabilities

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did occur.

Insurance contract liabilities represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. Insurance contract liabilities are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims intimated but not paid. Insurance contract liabilities are not discounted.

(g) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

ACCOUNTING POLICIES *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Reinsurance *(continued)*

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

(h) Equipment

All equipment are initially recorded at cost less depreciation and any accumulated impairment losses. The useful lives used in determining depreciation charge are:

Computer equipment	3 years
Motor vehicles	4 years
Furniture fittings and equipment	8 years

The residual values of items of equipment and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of five years.

(j) Investment properties

Investment properties comprises land and buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined at the reporting date by valuation experts with experience and knowledge of the locations where the properties are located. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between end of reporting periods are dealt with, through profit or loss for the year. Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through either OCI or through profit or loss, and
- Those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the collateral terms of the cash flows

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in unquoted equity instruments that are not held for trading, the Company has made an irrevocable election at the time of initial recognition to account for them at fair value through other comprehensive income (FVOCI). The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(i) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

Equity instruments

The Company subsequently measures quoted equity investments at fair value. Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable.

The Company's subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Companys policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments *(continued)*

(iv) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

(v) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from reinsurance arrangements
- Other receivables.
- Loans receivable
- Corporate bonds and commercial paper;
- Deposits with financial institutions; and
- Cash and bank balances.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments *(continued)*

(iv) Impairment *(continued)*

No impairment loss is recognised on equity investments and financial assets measured at FVTPL. The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from reinsurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and Incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i. Significant financial difficulty of the issuer or the borrower;

ii. A breach of contract - e.g. a default or past-due event;

iii. A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;

iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. The disappearance of an active market for that financial asset because of financial difficulties; or

vi. The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments *(continued)*

(iv) Impairment *(continued)*

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the general approach method.

Definition of the general approach

Under the general approach, at each reporting date, the Group determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Group will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Group will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Group will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

Definition of default

The Company will consider a financial asset to be in default when:

- The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty or borrower is more than 90 days past due on any material credit obligation to the Company and 2 years for receivables arising form reinsurance arrangements. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:
- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: eg. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances to reflect changes in circumstances.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments *(continued)*

(iv) Impairment *(continued)*

Definition of default *(continued)*

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

<u>Measurement of ECL</u>

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

ACCOUNTING POLICIES *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Financial Instruments *(continued)*

(iv) Impairment *(continued)*

Definition of default *(continued)*

Measurement of ECL *(continued)*

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by mortgage property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity; industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios.

(l) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').The financial statements are presented in Kenya shillings rounded to the nearest thousand ("Shs"), which is the Company's presentation currency.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Translation of foreign currencies *(continued)*

(vi) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss within other (losses)/gains.

(m) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(n) Leases

(a) Policy applicable from 1 January 2019

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For any short term leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease and variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Leases *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there are any changes in lease terms.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

(b) Policies applicable prior to 1 January 2019

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the Company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to profit or loss for the year on the straight-line basis over the term of the lease.

(o) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Income tax expense *(continued)*

Deferred income tax asset

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized.

(p) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme.

The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss in the year they fall due.

(q) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(r) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(s) Bonus stabilisation reserve

The bonus stabilization reserve represents amount of surplus set aside to allow for smoothening of return of interest declaration for the deposit administration schemes based on the recommendation of the independent actuarial consultant.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgments in applying the Company's accounting policies

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

Future benefit payments from long-term insurance contracts

The estimation of future benefit payments from long-term insurance contracts is one of the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Company's in which the Company has significant exposure to mortality risk.

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms and with discretionary participation in profits, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 12.00%p.a. (2018: 11.83% p.a)

Valuation of long-term insurance contract liabilities

The table below summarises details of the risk margins applied in the actuarial valuation of long term insurance contracts.

ACCOUNTING POLICIES *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

(i) Critical judgments in applying the Company's accounting policies *(continued)*

Valuation of long-term insurance contract liabilities (continued)

RISK MARGIN APPLIED

	31 December 219	31 December 218
Mortality	10% increase in mortality for life assurance	10% increase in mortality for life assurance
Longevity	10% decrease in mortality for annuities	10% decrease in mortality for annuities
Morbidity	10% decrease in inception rates and 5% decrease in recovery rates	10% decrease in inception rates and 5% decrease in recovery rates
Lapses	25% increase or decrease in lapses rates depending on which options gives rise to increase in liabilities	25% increase or decrease in lapses rates depending on which options gives rise to increase in liabilities
Interest	10% decrease	20% decrease
Expenses	10% increase	10% increase
Expenses inflation	10% increase in estimated escalation rate	10% increase in estimated escalation rate
Surrenders	10% increase or decrease in surrenders rates depending on which options gives rise to increase in liabilities	10% increase or decrease in surrenders rates depending on which options gives rise to increase in liabilities

Risk Margin Impact

The impact of changes in mortality, longevity, expenses and withdrawals will have the following effect on the value of the actuarial liabilities

		2019	2018
	% change	Shs'000	Shs'000
Interest	+10	75,661	116,436
Expenses	+10	19,388	22,488
Mortality	+10	1,198	1,294
Inflation	+10	6,909	9,244
Withdrawals	-25	831	898

Interest rate margins sensitivity

The actual interest rate used is arrived at by multiplying the risk free term structure of the interest rate of government bonds by a risk margin factor (1-riskmargin) which further reduces the valuation interest rate thus increasing the liabilities. The liabilities for 2019 have been valued using 10% (2018: 20% risk margin on interest rates as stipulated in the Insurance Regulatory Authority regulations. The table summarises the impact on the earnings of the Company had the rate of 20% been used.

Interest rate risk margin	Multiplication factor	Decrease in earnings (KSHS)
20%	(1-20%)	73 Million

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

(i) Critical judgments in applying the Company's accounting policies *(continued)*

Valuation of investment property

Estimates are made in determining valuation of investments properties. The management uses experts in determination of the values to adopt. In performing the valuation, the valuers uses discounted cash flows projections which incorporates assumptions around the continued demand of the rental space, sustainability of growth in rent rates as well as makes reference to the recent sales made of similar sizes and within the similar locality. The independent valuers also uses the highest and best in use principle in determining the values of the investment properties. The changes in these assumptions could result in significant change in the carrying value of the investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in vales and conducts formal an independent property valuation every years and adjusts the recorded fair values accordingly for any significant change.

Calculation of loss allowances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Determining incremental borrowing rate used in the discounting of lease liabilities

The interest rate implicit in the lease is basically the internal rate of return on all payments or receipts related to the lease in question. For both the lessee and the lessor the interest rate implicit in the lease is the discount rate at which:

i. The sum of the present value of

   a) the lease payments and

   b) the unguaranteed residual value equals

ii. The sum of

   a) the fair value of the underlying asset and

   b) any initial direct costs of the lessor.

The interest rate implicit in the lease depends on the initial fair value of the underlying asset, and the lessor's expectation of the residual value of the asset at the end of the lease. This information is mostly with the lessor.

Lack of information available to the Company, makes it difficult to determine the interest rate implicit in the lease because the Interest rate implicit in the lease is a Company-specific measure – specific to the lessor. Notwithstanding the Company has adopted an incremental borrowing rate.

ACCOUNTING POLICIES *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

(i) Critical judgments in applying the Company's accounting policies *(continued)*

Determining incremental borrowing rate used in the discounting of lease liabilities (continued)

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Given the above factors and that the Company has no recent borrowing experience, an interest assumption based on 4% above the current CBR rate currently at 8.5% has been adopted as its incremental borrowing rate.

Key sources of estimation uncertainty

Impairment losses

At the reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenario for each type of product / market and associated ECL; and
- Establishing groups of similar assets for the purposes of measuring ECL.

If the PD rates on the financial assets had been 5% higher or lower as at 31 December 2019, the loss allowance would have been Shs 0.4 million higher/lower.

Equipment

Critical estimates are made by the Company's directors, in determining depreciation rates and useful lives for equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 INCORPORATION AND REGISTERED OFFICE

APA Life Assurance Limited is a limited liability company incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The parent company, which is the ultimate holding company is Apollo Investments Limited which is incorporated in Kenya. The address of its registered office is 07Apollo Centre, Ring Road Parklands, Westlands, Nairobi.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimize potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk. The Company manages key risks as follows:

2.1 Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting and investment strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. It manages these positions within an asset-liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Company's key management personnel. The principal technique of the Company's ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. Separate portfolios of assets are maintained for with-profit business, non-linked non-profit business, and unit-linked business. For the purposes of the ALM framework, the Company does not manage the fund for future appropriations as a liability. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how insurance risks are managed using the categories utilized in the Company's ALM framework.

Under certain contracts, the Company has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. There is not enough historical information available on which to base these estimates.

The table below shows the contractual timing of undiscounted cash flows arising from assets and liabilities included in the company's ALM framework for management of long term insurance contracts as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.1 Insurance risk management *(continued)*

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
- Government bonds and treasury bills fixed rate					
- at amortized cost	4,618,141	-	3,482,270	1,069,981	65,890
- at fair value	3,645,330	-	78,515	567,298	2,999,517
Commercial paper and corporate bonds	143,817	-	87,821	55,996	-
Equity securities:					
- Listed	335,699	335,699	-	-	-
- Unlisted	7,110	7,110	-	-	-
Investment in unit trusts	5,717	-	5,717	-	-
Life policy loans, other loans and reinsurance share of liabilities	69,860	52,688	2,691	14,481	-
Receivables arising from direct insurance arrangements	83,500	-	83,500	-	-
Right-of-use assets	54,723	-	14,036	40,687	-
Other receivables	64,520	-	64,520	-	-
Cash and cash equivalents	1,016,063	-	1,016,063	-	-
Total	**10,044,480**	**395,497**	**4,835,133**	**1,748,443**	**3,065,407**
Liabilities:					
Insurance contracts	1,007,593	-	1,007,593	-	-
Payables arising from reinsurance arrangements	24,533	-	24,533	-	-
Payables under deposit insurance contracts	4,099,594	4,099,594	-	-	-
Lease liability	59,707	-	11,104	48,603	-
Other liabilities	112,975	-	112,973	-	-
Total	**5,304,402**	**4,099,594**	**1,156,203**	**48,603**	**-**
Difference in contractual cash flows	**4,740,078**	**(3,704,097)**	**3,678,930**	**1,699,840**	**3,065,407**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.1 Insurance risk management *(continued)*

The table below shows the contractual timing of discounted cash flows arising from assets and liabilities included in the company's Asset Liability Management framework for management of long term insurance contracts movement as at 31 December 2018.

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
- Government bonds and treasury bills fixed rate					
- at amortized cost	5,134,069	-	226,018	967,129	3,940,922
- at fair value	1,456,710	-	43,941	409,804	1,002,965
Commercial paper and corporate bonds	216,196	-	76,661	139,535	-
Equity securities:					
- Listed	222,700	222,700	-	-	-
- Unlisted	7,557	7,557	-	-	-
Investment in unit trusts	12,101	-	7,261	4,840	-
Life policy loans and receivables from reinsurance contracts	115,194	103,882	3,067	8,245	-
Receivables arising from direct insurance arrangements	109,823	-	109,823	-	-
Other receivables	60,923	-	60,923	-	-
Cash and cash equivalents	1,096,992	-	1,096,992	-	-
Total	**8,432,265**	**334,139**	**1,624,686**	**1,529,553**	**4,943,887**
Liabilities:					
Insurance contracts	1,039,706	-	1,039,706	-	-
Payables arising from reinsurance arrangements	86,482	-	86,482	-	-
Payables under deposit insurance contracts	3,497,314	3,497,314	-	-	-
Other liabilities	124,618	-	124,618	-	-
Total	**4,748,120**	**3,497,314**	**1,250,806**	**-**	**-**
Difference in contractual cash flows	**3,684,145**	**(3,163,175)**	**373,880**	**1,529,553**	**4,943,887**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.1 Insurance risk management *(continued)*

Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, TB and a human form of avian flu) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Company.

These tables do not include annuity contracts, for which a separate analysis is reported further below.

	Total Benefits Insured		
Benefits assured per life assured at the end of 2019	**Before Reinsurance**		**After Reinsurance**
All amounts in KSh'000	**Shs '000**	**%**	**Shs '000**
0-500	107,392	28%	107,392
500-1,000	20,304	5%	20,304
1,000-3,000	105,108	27%	59,595
3,000-5,000	64,371	17%	17,500
5,000-10,000	35,538	9%	6,000
Above 10,000	55,905	14%	4,000
Total	**388,618**	**100%**	**214,791**

	Total Benefits Insured		
Benefits assured per life assured at the end of 2018	**Before Reinsurance**		**After Reinsurance**
All amounts in KSh'000	**Shs '000**	**%**	**Shs '000**
0-500	44,060	11%	44,060
500-1,000	20,374	5%	20,374
1,000-3,000	93,389	23%	55,000
3,000-5,000	55,851	14%	14,000
5,000-10,000	94,646	24%	13,000
Above 10,000	91,672	23%	6,000
Total	**399,992**	**100%**	**152,434**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.1 Insurance risk management *(continued)*

Long-term insurance contracts *(continued)*

(a) Frequency and severity of claims *(continued)*

The following tables for annuity insurance contracts illustrates the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Company does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity payable in Shs per annum per life insured at the end of 2019

All amounts in KSh'000	Shs '000	%
0-50	464	1%
51-100	3,822	6%
101-200	10,752	18%
201-500	20,354	34%
501-1,000	17,197	29%
Over 1,000	7,274	12%
Total	**59,863**	**100%**

Annuity payable in Shs per annum per life insured at the end of 2018

All amounts in KSh'000	Shs '000	%
0-50	526	1%
51-100	4,120	8%
101-200	9,509	19%
201-500	18,167	37%
501-1,000	13,635	27%
Over 1,000	3,916	8%
Total	**49,873**	**100%**

2.2 Financial risk management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.2 Financial risk management *(continued)*

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(a) Market risks

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance and investment contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. This is calculated in a consistent manner with the prior year. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For the guaranteed element of liabilities under with-profits contracts, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However, the with profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with-profits funds.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

Interest bearing securities represent 91% (2018: 91%) of total investments. If interest rates in market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's investments moving according to the historical correlation with the index, income would increase / decrease by Shs 30.8 million (2018: Shs 27.32 million).

(ii) Equity price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

The Company has a defined investment policy which sets limits on the Company's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities. Investment management meetings are held daily. At these meetings, senior investment managers meet to discuss investment return and concentration across the company.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.2 Financial risk management *(continued)*

(ii) Equity price risk (continued)

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Listed equities securities represent 98% (2018: 97%) of total equity investments. If equity market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, equity would increase / decrease by Shs 16.1million (2018: Shs 11.1 million).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company primarily transacts in the Kenya shilling and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers and
- amount held with financial institutions - under cash and cash equivalents

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the board of directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company of its liability as the primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Internal audit makes regular reviews to assess the degree of compliance with the company's procedures on credit. Exposures to individual policyholders and groups of policyholders are within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders or homogenous groups of policyholders, a financial analysis is carried out by the management. The Company's assets bearing credit risk are summarized below:

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.2 Financial risk management *(continued)*

(b) Credit risk *(continued)*

	Gross carrying amounts	Provision of Impairments	Net of impairment provision	
	2019	2018	2019	2018
	Shs '000	Shs '000	Shs '000	Shs '000
Investment in unit link	5,717	-	5,717	11,257
Government securities	3,999,459	(2,240)	3,997,219	3,313,858
Reinsurers share of insurance liabilities	53,002	(314)	52,688	103,882
Receivables arising from direct insurance	87,760	(4,260)	83,500	109,823
Life policy & other loans	17,181	(9)	17,172	11,312
Other receivables	64,518	-	64,518	60,923
Corporate bonds and commercial paper	130,210	(131)	130,079	184,855
Deposits with financial institutions	994,511	(8,073)	986,438	1,031,841
Cash and bank	29,655	(30)	29,625	65,151
Total assets bearing credit risk	5,382,013	(15,057)	5,366,956	4,892,902

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. The amounts that are past due and not impaired are as shown below:

Receivables arising from direct insurance arrangements	83,500	109,823
Life policy & other loans	17,172	19,257
Other receivables	64,518	52,678
Total assets past due but not impaired	165,190	181,758

The assets reported above include Shs 5.7 million (2018: Shs 11.3 million) related to the assets backing unit linked contracts. The holders of these contracts bear the credit risk arising from these assets. The assets above also include assets held in the with-profits funds where the company is able to transfer part of the credit risk arising from these assets to holders of with-profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks). During the year, there was no financial assets that were impaired.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.2 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The table below provides a contractual maturity analysis of the company's financial liabilities as at 31 December 2019:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	17,500	313,468	676,625	1,007,593
Payables under deposit insurance contracts	4,099,594	-	-	4,099,594
Payables arising out of reinsurance arrangements	24,533	-	-	24,533
Other payables	112,974	-	-	112,974

The table below provides the contractual maturity analysis of the Company's financial liabilities at 31 December 2018:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	20,000	310,968	708,738	1,039,706
Payables under deposit insurance contracts	3,497,314	-	-	3,497,314
Payables arising out of reinsurance arrangements	86,482	-	-	86,482
Other payables	124,614	-	-	124,614

(d) Unit-linked contracts

For unit-linked contracts, the Company matches all the liabilities with assets in the portfolio in which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts

2.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.3 Fair value hierarchy *(continued)*

The following table presents the company's financial assets measured at fair value at 31 December 2018 and 31 December 2019

	Level 1	Level 2	Level 3	Total
31 December 2019	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Fair value through profit and loss				
- Government securities	1,759,529	-	-	1,759,529
- Quoted equities	335,699	-	-	335,699
- Unquoted equities	-	7,110	-	7,110
Total	**2,095,228**	**7,110**	**-**	**2,102,338**
31 December 2018				
Fair value through profit and loss				
- Government securities	770,804	-	-	770,804
- Quoted equities	222,700	-	-	222,700
- Unquoted equities	-	7,557	-	7,557
Total	**993,504**	**7,557**	**-**	**1,001,061**

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.3 Fair value hierarchy *(continued)*

The following table presents the company's financial assets and liabilities classified under various categories, measured and carried at fair value at 31 December 2018 and 31 December 2019. The values are as represented in the statement of financial position.

As at 31st December 2019	Held to maturity Shs'000	Loans and receiv-ables Shs'000	Available-for-sale Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets					
Quoted equities	-	-	335,699	335,699	335,699
Unquoted investments	-	-	7,110	7,110	7,110
Investments in Government securities	2,237,690	-	1,759,529	3,997,219	3,997,219
Reinsurance share of liabilities	-	52,688	-	52,688	52,688
Receivable arising from direct insurance arrangements	-	83,500	-	83,500	83,500
Commercial Paper & Corporate Bonds	130,079	-	-	130,079	130,079
Investment in Unit Trust	-	-	5,717	5,717	5,717
Life policy loans	-	2,691	-	2,691	2,691
Other loans receivables	-	14,481	-	14,481	-
Other receivables	-	64,518	-	64,518	64,518
Right-of-use assets	54,723	-	-	-	54,723
Cash and short term deposits	-	1,016,063	-	1,016,063	1,016,063
Total	**2,422,492**	**1,233,941**	**2,108,055**	**5,709,465**	**5,750,007**
Liabilities					
Insurance contract liabilities	1,007,593	-	-	1,007,593	1,007,593
Payable under deposit ministration contracts	4,099,594	-	-	4,099,594	4,099,594
Payable arising from reinsurance arrangement	-	24,533	-	24,533	24,533
Lease liabilities	59,707	-	-	-	59,707
Other Payables and accruals	-	112,974	-	112,974	112,974
Total	**5,166,894**	**137,507**	**-**	**5,244,694**	**5,304,401**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.3 Fair value hierarchy *(continued)*

As at 31st December 2018

Assets					
Quoted equities for various companies	-	-	222,700	222,700	222,700
Unquoted investments	-	-	7,557	7,557	7,557
Investments in Government securities	2,543,054	-	770,804	3,313,858	3,313,858
Reinsurance share of liabilities	-	103,882	-	103,882	103,882
Receivable arising from direct insurance arrangements	-	109,823	-	109,823	109,823
Commercial Paper & Corporate Bonds	184,855	-	-	184,855	184,855
Investment in Unit Trust	-	-	11,257	11,257	11,257
Life policy loans	-	3,067	-	3,067	3,067
Other loans receivables	-	8,245	-	8,245	-
Other receivables	-	60,923	-	60,923	60,923
Cash and short term deposits	-	1,096,992	-	1,096,992	1,096,992
Total	**2,727,909**	**1,382,932**	**1,012,318**	**5,123,159**	**5,114,914**
Liabilities					
Insurance contract liabilities	1,039,706	-	-	1,039,706	1,039,706
Payable under deposit administration contracts	3,497,314	-	-	3,497,314	3,497314
Payable arising from reinsurance arrangement	-	86,482	-	86,482	86,482
Other Payables and accruals	-	124,618	-	124,618	124,618
Total	**4,537,020**	**211,100**	**-**	**4,748,120**	**4,748,120**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.4 Capital risk management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

The Company is subject to a number of regulatory capital tests and also employ a number of realistic tests to allocate capital and manage risk.

In reporting the Company's financial strength, capital and solvency is measured using the regulations prescribed by the Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rate

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya and as such, is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities

The Kenya Insurance regulatory authority has also introduced Risk Based Capital model which will result in risk based approach to supervision. In line with risk based methodology, IRA has developed a Risk Based Capital (RBC) model, which is aimed at introducing capital requirements that are commensurate to the levels of risk being undertaken, and provide appropriate incentives for good risk management. The RBC model is a factor based model that computes the capital requirement based on four risk segments: insurance, market, credit and operational risk.

The new capital requirement (Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital by the 30th June 2020; the higher of: -

i. Shs 400 million; or
ii. risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or
iii. 5% of the liabilities of the life business for the financial year.

The Capital Adequacy ratio of the Company as at 31 December 2019 and 2018 is illustrated below.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Risk management objectives and policies *(continued)*

2.4 Capital risk management *(continued)*

	2019 Shs'000	2018 Shs'000
Available Capital	603,642	526,410
Required Capital	400,000	400,000
Capital Adequacy Ratio	151%	132%
Minimum Required Capital Adequacy Ratio	100%	100%

The actuarial valuation results by Independent Actuary for the year ended 2019 used an investment margin of 10% as required by regulation guidelines issued by the authority. Management has assessed the impact if the margin was maintained at 20%, the profit/surplus would have decreased by Shs73million for the year and the Capital Adequacy Ratio would have gone down to 136% as at 31 December 2019 (2018: 132%).

3 GROSS EARNED PREMIUM

The Company is organised into two main divisions, ordinary life and group life business. The premium income of the Company is analysed between the main classes of business as shown below:

Class of business	2019 Shs '000	2018 Shs '000
Ordinary life	148,664	125,301
Group life	759,906	837,511
Total	**908,570**	**962,812**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

4 INVESTMENT INCOME

	Long-term business Shs '000	Shareholders' funds Shs '000	2019 Total Shs '000	2018 Total Shs '000
Interest from government securities	392,417	57,380	449,797	410,350
Bank deposit interest	65,505	9,299	74,804	55,537
Rental income from investment properties	11,541	-	11,541	12,265
Dividends received from equity investments	14,598	-	14,598	8,524
Fair value gain on investment properties (Note 13)	-	-	-	10,000
Fair value gains/ (losses) on quoted equities	45,958	-	45,958	(39,800)
Fair value gains from government securities	12,006	3,253	15,259	15,774
Gain on sale of quoted equities	7,833	-	7,833	2,028
Gain on sale of government securities	11,277	-	11,277	-
Gain on sale of motor vehicle	-	1,000	1,000	-
Other income	3,037	-	3,037	5,567
Total	**564,172**	**70,932**	**635,104**	**480,245**

5 CLAIMS AND POLICYHOLDERS BENEFITS PAYABLE

	2019 Shs '000	2018 Shs '000
Life and death claims	202,673	162,965
Surrenders and annuity payments	65,083	58,739
Maturities benefits	25,943	15,164
Increase in actuarial value of insurance contract liabilities	35,935	74,526
Interest declared on deposit administration contracts (Note 27)	377,324	314,662
Total	**706,958**	**626,056**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

6 OPERATING AND OTHER EXPENSES

	Long term business Shs '000	Shareholders' funds Shs '000	2019 Total Shs '000	2018 Total Shs '000
Employee benefit expense (Note 7)	148,241	-	148,241	135,440
Auditors' remuneration	3,060	-	3,060	2,475
Directors emoluments – fees	5,232	-	5,232	6,034
Depreciation (Note 10)	-	5,079	5,079	4,526
Amortization (Note 11)	-	5,183	5,183	5,184
Repairs and maintenance expenditure	10,978	-	10,978	14,505
Right of use of asset -depreciation (Note 12)	10,945	-	10,945	-
Operating lease rentals -land and buildings	4,583	-	4,583	18,635
Advertising and promotion	10,425	-	10,425	17,479
Professional fees	2,703	-	2,703	13,276
Business levies and taxes	4,988	-	4,988	7,198
Insurances costs	10,891	-	10,891	12,496
Travelling, motor vehicle and accommodation	2,303	-	2,303	2,490
License and subscriptions	1,827	-	1,827	1,701
Training and seminars	1,892	-	1,892	5,544
Communication	3,758	-	3,758	2,827
Printing & stationery	1,729	-	1,729	2,161
Other Board expenses	2,277	-	2,277	2,763
Increase/(decrease) in expected credit loss charge	(6,785)	(959)	(7,744)	6,964
Other expenses	13,262	543	13,805	12,270
Total	**232,309**	**9,846**	**242,155**	**273,968**

7 EMPLOYEE BENEFIT EXPENSE

	Long term business Shs '000	Shareholders' funds Shs '000	2019 Total Shs '000	2018 Total Shs '000
Salaries and wages	126,174	-	126,174	116,350
Social security benefit costs	288	-	288	288
Retirement benefit costs	21,779	-	21,779	18,802
Total	**148,241**	**-**	**148,241**	**135,440**

The Company had 57 employees as at 31 December 2019 (2018: 57)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

8 FINANCE COSTS

	2019 Total Shs '000	2018 Total Shs '000
Interest expense on lease liabilities (note 32)	7,525	-

9 CURRENT INCOME TAX

	Long-term business Shs '000	Shareholders' funds Shs '000	2019 Total Shs '000	2018 Total Shs '000
(a) Current income tax expense				
Current income tax	-	-	-	-
Deferred income charge /(credit) (Note 29)	10,124	-	10,124	8,398
Income tax expense	10,124	-	10,124	8,398
Reconciliation of current income tax:				
(Loss) /profit before tax	17,903	61,086	78,989	(22,198)
Income tax calculated at a tax rate of 30% (2018: 30%)	5,371	18,326	23,697	(6,689)
Effect of income not subject to tax	(5,371)	(15,856)	(21,227)	10,209
Effect of expenses not deductible for tax	-	(2,470)	(2,470)	(3,550)
Deferred income tax (Note 29)	10,124	-	10,124	8,398
Income tax expense	10,124	-	10,124	8,398

(b) Taxation recoverable

	Long-term business Shs '000	Shareholders' funds Shs '000	2019 Total Shs '000	2018 Total Shs '000
At 1 January	-	14,794	14,794	13,690
Tax paid during the year	-	2,310	2,310	1,104
Current taxation charge (Note 9(a))	-	-	-	-
At 31 December	-	17,104	17,104	14,794

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

10 MOTOR VEHICLES AND EQUIPMENTS

	Motor vehicle Shs'000	Comput-ers Shs'000	Furniture, fittings & equip-ment Shs'000	Total Shs'000
At 1 January 2018	7,106	22,907	17,994	48,007
Additions	3,900	934	3,424	8,258
Disposal	-	-	-	-
At 31 December 2018	11,006	23,841	21,418	56,265
At 1 January 2019	11,006	23,841	21,418	56,265
Additions	-	509	938	1,447
Disposal	(2,000)	-	-	(2,000)
At 31 December 2019	9,006	24,350	22,356	55,712
Depreciation:				
At 1 January 2018	5,664	19,281	9,886	34,831
Charge for the year	585	2,205	1,736	4,526
Disposal	-	-	-	-
At 31 December 2018	6,249	21,486	11,622	39,358
At 1 January 2019	6,249	21,486	11,622	39,357
Charge for the year	1,269	1,757	2,053	5,079
Disposal	(2,000)	-	-	(2,000)
At 31 December 2018	6,249	21,486	11,622	39,358
Net book value:				
At 31 December 2019	**3,488**	**1,107**	**8,681**	**13,276**
At 31 December 2018	**4,757**	**2,355**	**9,796**	**16,908**

11 INTANGIBLE ASSET

	2019 Shs '000	2018 Shs '000
At 1 January	5,183	10,367
Amortization	(5,183)	(5,184)
At 31 December	-	5,183

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

12 RIGHT OF USE ASSETS

	2019 Shs '000	2018 Shs '000
At 1 January	65,668	-
Additions	-	-
Right of use of asset (amortization)	(10,945)	-
At 31 December	54,723	-

The carrying amount of prepaid operating lease rentals of Shs 65,668,021 at 1 January 2019 has been reclassified as right of use assets

The leases of offices are typically for period of 6 years, with an option to renew. The leases contain no restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

	2019 Shs '000	2018 Shs '000
At 1 January	65,668	-
Less: amounts financed through leases	(65,668)	-
Cash flow	-	-

Amounts recognized in profit and loss 31 December 2019

	2019 Shs '000	2018 Shs '000
Depreciation expense on right-of-use assets	10,945	-
Interest expense on lease liabilities (Note 8)	7,525	-
Total	18,470	-

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

13 INVESTMENT PROPERTIES

	2019 Shs '000	2018 Shs '000
At 1 January	155,000	273,000
Disposal	-	(128,000)
Fair value gain	-	10,000
At 31 December	155,000	155,000

Investment properties were last revalued on 31 December 2019, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use. The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (1evel 3).

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
At 31 December 2019				
Investment property	-	155,000	-	155,000
At 31 December 2018				
Investment property	-	155,000	-	155,000

Valuation technique used to derive level 2 fair values

Level 2 fair value of land and building has been derived using the discounted cash flow approach

Sensitivity analysis

The gross annual rent and yield are the significant unobservable inputs used in the valuation of investment properties. The effect of changes in gross annual rental and yield will have the following effect on the fair value of investment property;

	% change	2019 Shs'000	2018 Shs'000
Gross annual rent	10%	13,395	13,872
Gross annual rent	-10%	10,960	11,350
Yield	0.5%	1,039	1,077
Yield	-0.5%	941	975

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

14 QUOTED EQUITY INVESTMENTS

Fair value through profit or loss quoted equity securities

	2019 Shs '000	2018 Shs '000
At 1 January	222,700	-
Reclassified from available for sale	-	195,119
Additions	109,959	117,995
Disposals	(42,918)	(50,614)
Fair value losses	45,958	(39,800)
At 31 December	335,699	222,700

15 UNQUOTED EQUITY INVESTMENTS

Fair value through other comprehensive income (OCI)

	2019 Shs '000	2018 Shs '000
At 1 January	7,557	8,970
Fair value losses	(447)	(1,413)
At 31 December	7,110	7,557

16 INVESTMENT IN UNIT TRUSTS

	2019 Shs '000	2018 Shs '000
At 1 January	11,257	15,729
Net contributions (payable)	(5,540)	(4,472)
At 31 December	5,717	11,257

17 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2019 Shs '000	2018 Shs '000
At 31 December (Note 26)	53,002	104,662
-Less: Provision for impairment	(314)	(780)
At 31 December	52,688	103,882

Amounts due from reinsurers in respect of claims outstanding or other receivables due with the Company on contracts that are reinsured are included as reinsurers' share of liabilities in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

18 OTHER RECEIVABLES

	2019 Shs '000	2018 Shs '000
Due from related parties (Note 33)	-	14,797
Prepayments and deposits	14,365	11,445
Staff loans and secured advances	9,947	11,162
Agents advances and other loans	8,663	11,701
Rent receivables	2,959	2,623
Accrued dividend income	6,208	2,434
Proceeds receivables from disposal of shares	16,013	5,134
Others	6,333	1,627
At 31 December	64,488	60,923

The carrying value of the above receivables approximates their fair values.

19 GOVERNMENT SECURITIES

	2019 Shs '000	2018 Shs '000
(a) Government Securities - at amortized cost		
Treasury bills and bonds maturing:		
- In 1 year	61,688	301,396
- In 1- 5 years	714,581	782,838
- After 5 years	1,463,661	1,461,366
Less: Provision for impairment	(2,240)	(2,546)
Total	2,237,690	2,543,054
(a) Government Securities-at fair value through profit or loss		
At 1 January	770,804	658,058
Purchases	1,542,088	352,733
Maturity	(568,622)	(255,760)
Fair value gains	15,259	15,773
Total	1,759,529	770,804

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

20 COMMERCIAL PAPER & CORPORATE BONDS

	2019 KSh 000	2018 KSh 000
Commercial paper and bonds held to maturity		
- In 1 -5 years	130,210	185,500
-Less: Provision for impairment	(131)	(645)
Total	130,079	184,855

21 DEPOSITS WITH FINANCIAL INSTITUTIONS

	2019 KSh 000	2018 KSh 000
Held to maturity:		
- Within 90 days	613,178	406,865
- Within 1 year	381,333	633,508
-Less: Provision for impairment	(8,073)	(8,532)
Total	986,438	1,031,841

Weighted average effective interest rates are disclosed under note 34.

22 SHARE CAPITAL

	Number of Shares	Shs'000
Balance at 1 January 2018, 1 January 2019 and 31 December 2019	7,000,000	700,000

The total authorized number of ordinary shares is 7,000,000 with a par value of Shs 100. All shares are fully issued and paid up.

23 RETAINED EARNINGS

The retained earnings / (deficits) represent profits (losses) from shareholders' funds and transfers of accumulated surpluses / (deficits) from the long-term insurance business net of tax. Movement in the retained earnings is shown in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

24 LONGTERM BUSINESS RESERVES

The long term business reserves comprise of unappropriated actuarial surpluses (i.e. statutory reserves) of KShs64,911,000 and Bonus Stabilisation Reserve of KShs17,968,000 whose distribution is subject to restrictions imposed by the Insurance Act and recommendations of Independent Consulting Actuary. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term insurance business. The movement in the statutory reserve is shown in the statement of changes in equity.

25 INSURANCE CONTRACT LIABILITIES

	2019 Shs'000	2018 Shs'000
Long term insurance contracts at 31 December		
- claims reported and claims handling expenses	110,980	179,027
- actuarial liabilities with respect to contracts in force	896,613	860,679
Total	1,007,593	1,039,706

Insurance contract liabilities comprises gross claims reported, claims handling expenses and actuarial liabilities with respect to all contracts in force for ordinary (including unit linked policies) and group life business.

26 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2019			2018		
	Gross Shs'000	Reinsur-ance Shs'000	Net Shs'000	Gross Shs'000	Reinsur-ance Shs'000	Net Shs'000
At start of year	1,039,706	(104,662)	935,044	984,801	(124,546)	860,255
Cash paid for claims settled in the year	(388,618)	173,027	(215,591)	(399,993)	241,758	(158,235)
	651,088	68,365	719,453	584,808	117,212	702,020
(Decrease) /increase in liabilities arising						
- from prior year claims	251,757	(69,621)	182,136	212,439	(77,220)	135,219
- from current year claims	104,748	(51,746)	53,002	242,458	(144,653)	97,805
Total increase in liabilities	356,505	(121,367)	235,138	454,897	(221,873)	233,024
Total	1,007,593	(53,002)	954,591	1,039,706	(104,661)	935,044
Notified claims	110,981	(53,002)	57,979	179,027	(104,662)	74,365
Actuarial value of life contract liabilities	896,612	-	896,612	860,679	-	860,679
Total at the end of year	1,007,593	(53,002)	954,591	1,039,706	(104,662)	935,044

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

27 AMOUNTS PAYABLE UNDER DEPOSIT ADMINISTRATION CONTRACTS

Liabilities due under deposit administration contracts are recorded at amortized cost. Movements in amounts payable under deposit administration contracts during the year are as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 10.50%, (2018:10.25%).

	2019 Shs'000	2018 Shs'000
At 1 January	3,497,314	3,115,339
Pension fund deposits received	609,152	530,487
Pension fund withdrawals	(384,196)	(463,174)
Interest payable to policyholders	377,324	314,662
At 31 December	4,099,594	3,497,314

28 OTHER PAYABLES

	2019 Shs'000	2018 Shs'000
Due to related companies (Note 33)	8,070	1,914
Accrued expenses	40,607	73,620
Rental deposits	810	1,730
Trade creditors	6,404	16,432
Premium deposits	49,235	27,773
Other liabilities	7,848	3,149
At 31 December	112,974	124,618

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2019

29 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows

	2019 Shs'000	2018 Shs'000
At 1 January	18,425	10,027
(Credit) /charge to profit or loss (Note 9(a))	10,124	8,398
At 31 December	28,549	18,425
Deferred tax movement is made up as follows:		
Movement in unappropriated surplus /(deficit)		
At 1 January	61,421	33,427
At 31 December	(95,167)	(61,421)
Movement of the surplus during the year	(33,746)	(27,994)
Deferred income tax charged/ (credit) at 30% (2018: 30%)	(10,124)	(8,398)
At 31 December	(10,124)	(8,398)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

30 (a) NOTES TO THE STATEMENT OF CASH FLOWS

	NOTES	2019	2018
Reconciliation of profit before taxation to cash generated from operations:		Shs'000	Shs'000
Profit /(loss) before income tax		78,989	(22,198)
Adjustments for:			
Interest income	4	(524,601)	(465,887)
Profit on sale of quoted equities	4	(7,833)	(2,028)
Profit on sale of government securities	4	(11,277)	-
Fair value (gain)/loss on quoted equities	4	(45,958)	39,800
Fair value gain on government securities	4	(15,259)	(15,774)
Depreciation charge	10	5,079	4,526
Amortization charge	11	5,183	5,184
Depreciation of right-of-use assets	12	10,945	-
Fair value gain on investment properties	13	-	(10,000)
Gain from sale of fixed assets		(1,000)	-
Expected credit loss charge		(7,744)	6,966
Changes in:			
- technical provisions		621,361	457,545
- receivables arising from reinsurance arrangements		(61,948)	64,185
- other payables		(11,644)	20,666
- other receivables		22,758	(50,939)
Cash outflow from operations		63,328	32,046

(b) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2019	2018
Cash and bank balances	29,655	65,151
Deposits with financial institutions maturing within 90 days (Note 21)	613,178	406,865
Total	642,833	472,016

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

31 CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. At the reporting date, there was no litigation that the company was aware of. The directors are of the opinion that any litigation that may arise from this source will not have a material effect on the financial position or profits of the Company.

In 2015, the Company received a tax assessment for principal tax of Shs 33,745,125 relating to prior periods, which is in dispute and the company is contesting the assessment. No provision has been made in these financial statements for these amounts as the Company considers it has adequate grounds to dispute the assessment.

32 LEASE LIABILITIES

	2019 Shs'000	2018 Shs'000
1 January	65,668	-
Lease payments	(13,486)	-
Interest on lease (Note 8)	7,525	-
Balance at 31 December	59,707	-

The lease liability is calculated as the present value of the outstanding rentals discounted using the incremental borrowing rate at the date of transition (1 January 2019). The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's financial function.

33 RELATED PARTIES

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients. The Company is a wholly owned subsidiary of Apollo Investments Limited, also incorporated in Kenya. Apollo Holdings Limited, Apollo Asset Management Company Limited, Gordon Court Limited and APA Insurance Limited are related to APA Life Assurance Limited through common shareholdings and directorships.

Outstanding balances with related parties	2019 Shs' 000	2018 Shs' 000
(i) Due from related parties (Note 18)		
Due from a Director	-	13,911
Due from Apollo Investments Limited	-	886
Total	-	14,797
(ii) Due to related parties (Note 28)		
Due to Gordon Court Limited	317	92
Due to Apollo Asset Management Limited	7,145	1,279
Due to APA Insurance Limited	608	543
Total	8,070	1,914

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RELATED PARTIES (Continued)

(iii) Related party transactions	2019 Shs 000	2018 Shs 000
Apollo Asset Management Company Limited		
Fees for asset management	28,341	14,163
Gordon Court Company Limited		
Office rent	9,254	11,908
APA Insurance Limited		
Contributions received for pension scheme	95,803	86,773
Premium received for group life assurance	9,830	5,665
Premium paid for general insurance business	9,339	9,360
(iv) Key management and directors' compensation		
Directors' fees	5,232	6,034
Other remuneration	22,771	20,701
Key management compensation	64,507	58,643
Total	92,510	85,378

34 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the company's weighted average effective interest rates realized during the year on the principal interest-bearing investments:

	2019 %	2018 %
Government securities	12.33	12.08
Deposits with financial institutions	9.85	9.56
Commercial paper & corporate bonds	13.30	12.97
Other loans receivables (non-staff)	14.00	14.00

35 COVID 19 - POST BALANCE SHEET EVENT

The world is currently experiencing a significant challenge emanating from the COVID-19 pandemic. Globally and locally, the authorities are attempting to stop the spread of the virus with the introduction of various measures, including complete lock downs of some countries. Kenya Government has introduced certain economic stimulus proposals to ease the burden on business and the citizens as a whole. At Company level, we are following the developments, particularly the impact on business, staff, customers and all other stakeholders. Preliminary measures and business continuity plans to mitigate adverse impact are being activated and will be closely monitored and the Company will continually assess them on an ongoing basis and adopt changes as events unfold. The directors note that the effects of COVID-19 pandemic will impact the company's business and financial results in 2020 but the full impact is yet to be ascertained.

SUPPLEMENTARY INFORMATION
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Ordinary Life business Shs' 000	Group Life business Shs' 000	Other Shs' 000	2019 Total Shs' 000	2018 Total Shs' 000
INCOME:					
Gross earned premium	148,664	759,906	-	908,570	962,812
Reinsurance premiums ceded	(8,922)	(409,145)	-	(418,067)	(495,813)
Net earned premium	**139,742**	**350,761**	**-**	**490,503**	**466,999**
Investment income	41,650	68,618	453,904	564,172	427,681
Commission earned	3,492	92,355		95,847	106,069
Total income	**184,884**	**511,734**	**453,904**	**1,150,522**	**1,000,749**
OUTGO:					
Claims and policy holder benefit					
Life and death claims	(1,596)	(201,077)	-	(202,673)	(163,242)
Surrenders and annuity payments	(5,219)	(59,863)	-	(65,082)	(58,739)
Maturities	(25,944)	-	-	(25,944)	(14,887)
Increase in insurance contract liabilities	(70,018)	34,083	-	(35,935)	(74,526)
Interest on deposit administration policyholders	-	-	(377,324)	(377,324)	(314,662)
Net claims and policyholder benefits payable	**(102,777)**	**(226,857)**	**(377,324)**	**(706,958)**	**(626,056)**
Expenses					
Operating and other expenses	(102,808)	(110,451)	(26,576)	(239,835)	(262,457)
Commissions payable	(66,856)	(107,784)	(11,186)	(185,826)	(175,485)
Total expenses and commissions	**(169,664)**	**(218,235)**	**(37,762)**	**(425,661)**	**(437,942)**
Profit/ (loss) the year before income tax expense	(87,557)	66,642	38,818	17,903	(63,249)
Income tax expense	2,267	(11,030)	(1,361)	(10,124)	(8,398)
Profit/(loss) for the year after tax	**(85,290)**	**55,612**	**37,457**	**7,779**	**(71,647)**

The above supplementary information was approved by the board of directors on 17 March 2020 and signed on its behalf by:

RICHARD M. ASHLEY
Chairman

ASHOK SHAH
Director

THE APOLLO GROUP

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